

ANNUAL REVIEW

2008



DENEL AVIATION





VISION

To deliver complete aviation solutions with innovation, quality and value-adding services, through our worldwide partnerships.

MISSION STATEMENT

1. CREATE AND DELIVER EXCEPTIONAL VALUE

We are committed to our customers and assume accountability in our duties. We believe that delivering value solutions is key to successful longterm relationships.

2. RESPECT PEOPLE AND ENABLE KNOWLEDGE

We recognise that our success as an organisation depends on the expertise, skills and knowledge of our people and our ability to function as a tightly integrated team. We appreciate diversity and believe that respect and knowledge sharing is essential to our success.

3. COMMIT TO EXCELLENCE

We understand the trust our customers place in us. With this in mind, we strive to excel in every detail and approach each challenge with personal passion and enthusiasm.

VALUES

1. RESPECT DIVERSITY

We are committed to creating one team to deliver one vision. We embrace everyone's individuality and recognise that our success depends on the talent, skills and expertise of all our people functioning as one integrated and reliable team.

2. CUSTOMER FOCUSED

Sharing our passion for flight, we will always provide the human touch with excellent service that requires us to be more accessible, consistent, responsive and understanding of the challenges that face us all.

3. RELIABILITY

We understand the challenges that face our clients therefore we think differently, more creatively, more timeously, to deliver more reliable solutions. We recognise that each and every one of us can make a lasting difference to the way we service our clients and ultimately build our business.

4. CELEBRATING THE SPIRIT OF EVOLUTION

We embrace change with the opportunities that the future presents by being more solutions driven and accountable. We will seek the best partners and products to enable a new way of working and thinking.



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LOCKHEED MARTIN GIVES ACCREDITATION TO DENEL AVIATION

A process that started some 18 months ago has recently seen Denel Aviation in South Africa getting the coveted Lockheed Martin service centre accreditation for the maintenance, repair and overhaul (MRO) of C-130 transport aircraft.

Although Denel Aviation had been supporting the South African Air Force (SAAF) fleet of Hercules C-130 aircraft for decades, this formal accreditation opens the way to a much bigger market.

“With some 140 of these aircraft (C-130 and its L100 civil version) in Africa, there is ample opportunity for Denel Aviation,” explains Denel Aviation CEO Ismail Dockrat. “What we see today is the result of an earlier strategy to align Denel Aviation with original equipment manufacturers (OEMs) related to our product services. For us to be a recognised C-130 MRO facility, Denel Aviation simply needed to obtain Lockheed Martin accreditation.”

Currently there are no official Lockheed Martin C-130 accredited service centres in Africa. Both Lockheed Martin and Denel Aviation saw the benefits of establishing the service centre at Denel Aviation to serve the African market.

The process started in March 2007 when Lockheed Martin first audited Denel Aviation’s facilities adjacent to OR Tambo International Airport near Johannesburg.

In October 2007 the US State Department gave approval for the export of technical information from Lockheed Martin, which would enable Denel Aviation to operate as an accredited Lockheed Martin C-130 service centre. This enables Denel Aviation to support all other C-130 customers beyond the SAAF, 14 of which are in Africa out of a global tally of 61 countries.

Meanwhile, in an effort to standardise all Lockheed Martin service centres around the world, the process was delayed for some months.

In February 2008 Lockheed Martin issued a newly devised Support Services Agreement (SSA), which is the new requirement for its service centres around the world. Denel Aviation placed its application to be accredited in March 2008, which Lockheed Martin approved within 60 days.

“As we have been working hard to achieve this status, I am exceptionally pleased that our company can now expand its activities into Africa and beyond,” Dockrat said. “With more than 40 years’ experience of aircraft maintenance and support, we know that Denel Aviation can give customers the best.”

BUSINESS PROFILE

Denel Aviation is a Maintenance, Repair and Overhaul (MRO) company seeking to consolidate, entrench and expand its position as a strategic partner to the South African Air Force (SAAF), while continuing more than 40 years of service to the local and international rotary and fixed wing aircraft markets.

AREAS OF EXPERTISE

Design, development, integration, manufacturing, upgrade, servicing and overhaul of aircraft, aircraft systems, aircraft support equipment and aerospace ground equipment.

INFRASTRUCTURE

Fixed Wing, Rotary Wing, Component Workshops, Engineering and Flight Test Services, Rooivalk and Denel Aviation Manpower Group (AMG). These business units provide a total MRO solution to clients and extended services with partnerships through our international affiliates. An on-site Aviation Training Academy with courses certified by the SA Civil Aviation Authority.

For either an airforce or an air fleet to remain successful, constantly evolving MRO support and highly-skilled engineering resources are imperative. You need a partner that is accredited, has a proven track record and has a passion to keep you flying.

EXPERIENCE IN THE LAST 5 YEARS (SYNOPSIS)

Fixed Wing: B707/B727/B737, Cheetah, C-130, Hawk, Gripen

Rotary Wing: Alouette, Puma, Oryx (OEM), Rooivalk, A109, AS350

Component Workshops: transmissions and propellers, hydraulics and pneumatics, landing gears, wheels and brakes, composites,

Avionics/Electrical/Oxygen, GS&TE Calibration

Engineering and flight test centre: design authority (Oryx), MRO engineering support, avionic HW/SW upgrades, mission planning and debriefing, specialist aerospace services, flight testing, information management, qualification

Rooivalk: OEM, design authority, integration, qualification, product support and program management

Denel Aviation Manpower Group (AMG): manpower supply to the SAAF and contract professionals



CEO OVERVIEW

Since Denel Aviation's turnaround began in October 2006, major internal changes have been successfully implemented, contributing greatly to business performance. This achievement is thanks to the commitment and hard work of all Denel Aviation employees, to whom I am very grateful.

All of these changes are aimed at enhancing our efficiency and productivity, which in turn will lead to the improved financial performance of our business.

An essential part of the transformation was the formation of a dynamic leadership team. We now have a tightly configured, coordinated leadership team, including the successful integration of the Rooivalk and DPS/AMG (Aero Manpower Group) management teams into the core Denel Aviation executive management structure.

Thanks to the outstanding efforts of each one of our dedicated employees, we have met or exceeded all our key financial and transformation targets.

We also successfully delivered on several important programmes including the completion of the Hawk final assembly. With the knowledge and experience gained on this programme, we are now in a very strong position to support the SAAF Hawk into the future.

Our continued service excellence was again demonstrated with the delivery of the Kenyan Air Force's 406 aircraft earlier this year. With a track record like this we are confident of cultivating new future markets.

We are committed to continuing to give of our best in service of our South African clients, notably the SAAF and the South African Police Service. Denel Aviation is performing well on the support of the Oryx fleet, which is the mainstay of our business. The Eurocopter accreditation we received demonstrates the strength of our relationship with this key supplier.

Although our business is now moving in the right direction, there are still significant challenges ahead that will require greater commitment and hard work from all of us.

Denel Aviation is committed to the principles of good corporate governance as recommended by the Protocol on Corporate Governance in the Public Sector and the King II Report. The divisional board members are aware of their responsibilities towards the entity and its stakeholders. Governance structures are in place to continuously improve accountability, integrity and the standard of reporting in order to facilitate informed decision-making.

In keeping with Denel's implementation of the macro strategy, Denel Aviation constantly measures itself against the aims of the business turnaround. Whereas the Group as a whole focused largely on the strategy, Denel Aviation will dedicate the next three years to further improving efficiencies, productivity and margins.

Ismail Dockrat
CEO



STRATEGIC OVERVIEW

THE FIVE PILLARS

The state-owned enterprise, Denel (Pty) Ltd, that is parent to several businesses including Denel Aviation, embarked on a major restructuring in 2005.

Its macro strategy, aimed at the complete turnaround of Denel, is built on five pillars that rest on the foundation of transformation and its people:

1. Secure 'privileged access', which refers to the concept of local industry having visibility of defence expenditure and participating in joint planning to adequately meet the Department of Defence's requirements;
2. Engage state agencies (align all stakeholders with the macro strategy);
3. Evaluate the commercial viability of business entities;
4. Create equity-based relationships/formal alliance partners; and
5. Raise productivity and capabilities to world-class standards.

The macro strategy took account of the global defence environment as well as the changing needs of customers.

With increased consolidation in the defence industry and the formation of alliances worldwide, Denel had to adapt to new global circumstances. Denel's capabilities remain attractive to foreign prime contractors with a view to partnering. Therefore, the strategy dictated that it would become a specialised contractor or sub-supplier to other international defence contractors, whilst focusing on being a domestic prime contractor.

An analysis of the international defence environment showed that much of global defence spend is not directly accessible to independent contractors like Denel. Nevertheless, Denel meets the prerequisites to act as a specialised contractor that can slot into the value chain of the global players, thanks to its technology edge and low cost production capabilities in several niche areas.

The macro strategy was also based on Denel's involvement in international workshare programmes, such as the Gripen, Hawk and Agusta helicopter programmes.

ENGAGE STATE AGENCIES

Denel Aviation and the SAAF have together formulated their long-term vision of support along the following key principles:

- The SAAF will focus on its core business, namely air operations, while retaining selected maintenance capabilities to enable it to support operations and other unique activities.
- Denel Aviation, as part of the South African Defence-Related Industries (SADRI), will focus on MRO capabilities to support the SAAF's air operations.
- Where possible, the SAAF will reduce its MRO activities and migrate these to SADRI in order to eliminate inefficiencies and duplications.

Discussions have begun with the Centurion Aviation Village (a Department of Trade and Industry initiative) to establish an aerospace cluster at Waterkloof air force base, with Denel Aviation as one of the anchor tenants.

Engagement with the Department of Public Enterprises (DPE), the Department of Defence and the National Treasury has commenced on the long-term sustainability of Denel Aviation and the appropriate funding and long-term implementation of the Rooivalk programme.

The maintenance support tender for SAPS squirrel helicopters was won jointly by Eurocopter SA and Denel Aviation.

SECURE PRIVILEGED ACCESS

Denel Aviation primarily services the Oryx, Rooivalk and C-130 Hercules SAAF platforms and is positioning itself to accommodate the new platforms that are to be introduced, namely: the A109 and Super Lynx helicopters and the Hawk, Gripen and Airbus A400M fixed wing aircraft. During the year under review, significant progress was made in strengthening the partnerships with the Original Equipment Manufacturers to position Denel Aviation to service these new platforms i.e. Airbus, BAE Systems, SAAB and AgustaWestland.

EQUITY PARTNERSHIPS AND ALLIANCES

In May 2007, the Eurocopter accreditation was completed for the Oryx, Puma and Alouette and a technical aid agreement (Repair Centre Agreement) is imminent. There is significant potential for maintenance of the AS350 (Squirrel) series helicopters. A cooperation agreement was signed with Eurocopter Southern Africa and an audit conducted to extend the scope of the Repair Centre Agreement to cover the Squirrel, as well as the Puma and Alouette.

The initial target market is the South African Police Service's Air Wing. Thereafter, we aim to expand into the local civilian market, as well as the civil and military aircraft markets of other Southern African countries.

Denel Aviation has been specially chosen as the only accredited and approved Lockheed Martin service centre for the C-130 in Africa. This would not have been possible without the unwavering efforts of our team to meet the highest standards in the world to achieve this prestigious status.

Denel Aviation and SAAB Aerotek South Africa have agreed to jointly pursue the Gripen interim support requirements. This aligns with the SAAF's long-term vision of SADRI focusing on MRO capabilities to support its air operations.

The above relationships will increase the business base in both the African and international markets.

EVALUATE COMMERCIAL VIABILITY OF BUSINESS ENTITIES

BUSINESS AND COMMERCIAL MODEL:

- All services will be provided within the framework of a mutually accepted performance based business model and an affordable, but sustainable, commercial arrangement with an agreed DA EBIT target (overall target guideline), in lieu of preferential access for Denel Aviation to provide MRO and support services for the agreed product systems. Denel Aviation will provide open book accounting principles to the SAAF (to be defined).
- An umbrella agreement will be finalised by the DA/SAAF Steering Committee and presented to the implementation group for approval:
 - The umbrella agreement will define principles of engagement and not the quantum of the commercial arrangement; and
 - The quantum of MRO and support services will be defined and agreed in separate product system specific agreements. The term of the agreements will relate to the expected life of the system, providing financial visibility within an agreed three year rolling budget period and with clear exit and/or termination clauses linked to agreed performance-based metrics.

DENEL AVIATION ECONOMIC VIABILITY AND SUSTAINABILITY:

- Within the scope of agreed assigned product systems, Denel Aviation has right-sized its operations to be economically viable and enhanced future sustainability by targeting similar external markets, using non-SAAF profits to reduce overheads.
- The principles of service delivery will be based on long-term stable performance-based contracts, agreed performance metrics covering the expected life of product systems (e.g. Oryx until 2023), and clear rules for disengagement.
- The financial impact of this business model is currently being determined by the SAAF/DA Workgroups and will be presented to the Steering Committee. This will be used to determine the quantum of each product system support contract. Transition to steady state will require investment that will impact DA short-term profitability.

WORLD CLASS CAPABILITY AND PRODUCTIVITY

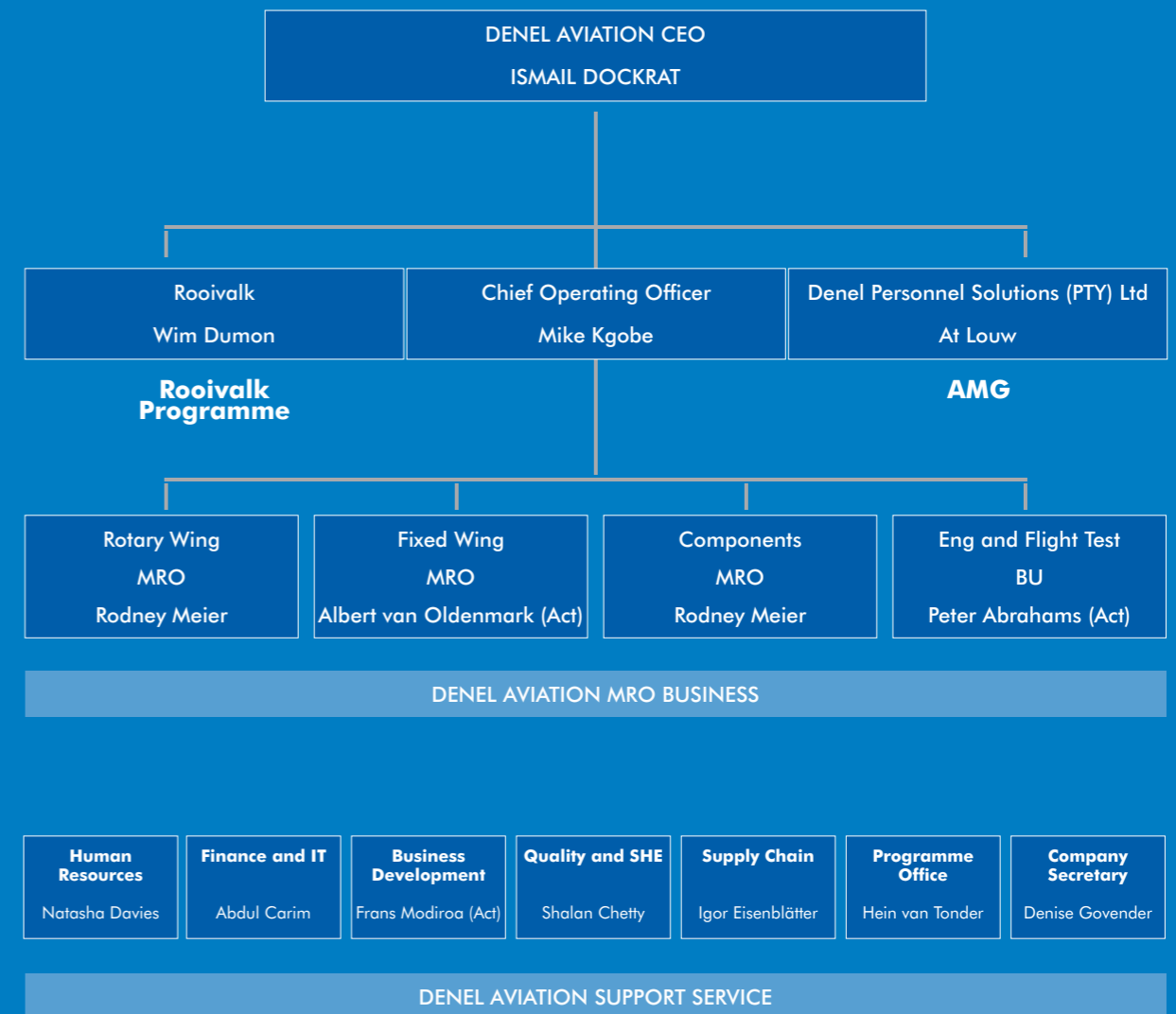
Denel Aviation is certified to ISO 9001:2000, as well as the prestigious AS9100B aerospace standard. It is also approved and certified by local and international accreditation bodies. Denel Aviation is approved by the South African Civil Aviation Authority (SA CAA) and the European Aviation Safety Agency (EASA) as an Aircraft Maintenance Organisation (AMO). Productivity improvements have been implemented to reduce the fixed cost base and improve labour efficiencies. The business overhead has been reduced to an acceptable level in relation to global best practice.

The following internal enterprise-level improvements, which are at various stages of implementation, will result in further improvements in efficiency, productivity and better management of costs going forward:

- Supply chain optimisation;
- Asset and inventory clean up;
- Financial data clean up and ERP system optimisation;
- Space optimisation to drive rental efficiencies and savings;
- Restructuring of the business and exiting of non-core and non-profitable segments; and
- Implementation of a performance management system linked to financial targets and customer service.



DENEL AVIATION STRUCTURE



EXECUTIVE MANAGEMENT TEAM



Ismail Dockrat Chief Executive Officer

Ismail holds a National Diploma in Electronics Engineering. His first job was at the CSIR. He then went on to run his own business and later worked at Armscor within the aerospace environment. He then completed his MBA at UCT's Graduate School of Business and spent a period at Cambridge University, having been awarded the Sainsbury Management Fellowship. Ismail joined Trade and Investment South Africa (TISA), a division of the DTI, in July 2001 and later served as TISA's Chief Operating Officer. In 2003 he was appointed the CEO of Wesgro, the official Trade and Investment Promotion Agency for the Western Cape province. In 2005 Ismail was awarded the prestigious title of South Africa's Boss of the Year.

He joined Denel in 2006 to begin driving the turnaround of Denel Aviation as part of the company's overall macro turnaround strategy.

Ismail is chairman of the Board of Directors of Denel Personnel Solutions (Pty) Ltd., a wholly owned subsidiary of Denel Aviation. He serves on the Board of Denel Aviation and is a non-executive director of Turbomeca Africa.

He is also a fellow of the African Leadership Initiative, a member of the Young Presidents Organisation and a member of the Advisory Board of the University of Cape Town's Graduate School of Business.



Abdul Carim Chief Financial Officer

With over 20 years of experience in finance, Abdul Carim, a qualified CA, started working as an audit clerk in 1989. He holds a B Comm, B Acc and is a member of South African Institute of Chartered Accountants (SAICA). He joined Denel Aviation in 2008 as CFO and also assists the CEO and fellow executives in formulating and implementing strategic plans for the organisation.



Natasha Davies Executive Manager: Human Resources

Having joined Denel Aviation in September 2007, Natasha Davies is responsible for the entire Human Resources function within the organisation. She holds both her B.Cur and M.Com degrees from the University of Johannesburg, and is a registered nurse by profession.



Hein van Tonder Executive Manager: Programme Office

Hein has spent the last 26 years in the South African aerospace and aviation related industry in various capacities and has gained extensive experience in the field of business development and project management. He holds an MBA as well as an Engineering Diploma in Control Systems and Electronics.

Heading up the Programme Office, Hein's primary focus is the establishment of an effective project management function inclusive of the successful pursuit of new orders, contract management and delivery, customer liaison and interaction as well as strategy formulation and implementation.



Rodney Meier Executive Manager: Rotary Wing and Component Workshops MRO

Rodney has held various positions within Denel Aviation over the years, having begun his career as an apprentice aircraft maintenance technician with Atlas Aircraft Corporation in 1974. He currently holds the position of Executive Manager Rotary Wing MRO, and in August 2008, also took over the management of the component workshop MRO. Rodney completed the UNISA School of Business Leadership's Management Development Programme.



Mike Kgobe Chief Operating Officer

With over 18 years' experience in aeronautical engineering and maintenance, Mike has held a variety of positions since joining Denel Aviation in 2000. The most recent before his appointment as Chief Operating Officer being Executive Manager: Component MRO, Acting Quality Manager and Logistics Support Manager. His responsibility for the Denel Aviation MRO business includes maintenance repair and overhaul of rotary and fixed wing aircraft; aircraft components and ground support and test equipment, and the related direct support functions.

Mike holds a Masters Degree in Aeronautical Maintenance and Production from Ecole Nationale Supérieure d'Ingénieurs de Constructions Aéronautiques (Toulouse, France) and completed UNISA's Executive Leadership Programme. He's also a Fellow of the French Aeronautics and Space Industry Association.



Shalan Chetty Executive Manager: Quality and SHE

A registered professional engineer with postgraduate qualifications in aircraft airworthiness and aviation safety from ENAC/ENSICA (France), Shalan has spent over 12 years in the industry. His experience ranges from system and certification engineering on both helicopters and fixed wing aircraft to programme and contract management.



Frans Modiroa Executive Manager Business Development (Acting)

Frans has been in the aviation business since 1985. He is a licensed aircraft engineer and has had international exposure in the aerospace business. Positions occupied in the past include: Maintenance Director and subsequently Chief of Operations for South African Express Airways: Commercial Director and founding member of Aviation Solutions: Chief Executive Officer of Francois Aerospace: and Head of Operations of Global Aviation.

Frans attended advanced training with airlines in Austria, USA and Germany. He completed a Business Leadership course in the USA and a Business Management course at UCT.



Igor Eisenblätter Executive Manager: Supply Chain

With more than 10 years' experience in supply chain management and a qualified CPIM (through APICS), Igor consulted to various companies on business optimisation before joining Denel. Previously, as an electrical engineer, he spent much time in sales and project management across a wide range of disciplines.



Peter Abrahams Executive Manager: Engineering and Flight Test (Acting)

Peter has spent 38 years in the aviation industry, having joined Denel Aviation (then Atlas Aircraft Corporation) after a number of years of service in the South African Air Force and the National Institute for Defence Research, CSIR. His experience at Denel Aviation includes managing the flight test instrumentation and telemetry systems group, program management and management of the Denel Aviation Flight Test Centre. Peter holds an NDip(Aeronautics) from Pretoria Technikon, as well as an MDP and AEP from UNISA's School of Business Leadership.



At Louw Managing Director: DPS (Pty) Ltd

With both B.Com (Econ.) and Hons (HR) degrees, At has spent the majority of his career in human resources, holding a variety of positions in the engineering and production environments, with extensive exposure to the armaments and aviation industry. Before assuming the position of MD, At was the HR Manager for Denel Group, as well as the HR Projects Manager. He also initiated the very successful Denel and DOD Youth Foundation technical capability building programme.

At has served on various boards including that of the ISETSETA, as a representative of the Electronics Industries Federation.



Albert van Oldenmark Executive Manager: Fixed Wing (Acting)

Albert started at Atlas Aircraft Corporation as an apprentice, qualified as a technician and attained his BSc Engineering (Electronics) degree through part-time study at the University of Pretoria. His experience at Denel Aviation includes overseas secondment, design, system engineering, manufacturing, production, aircraft assembly, aircraft maintenance, aircraft upgrades, customer support and aircraft maintenance support establishment, as well as the management of major programmes, projects, various departments and business units.



Wim Maurice Geert Dumon Executive Manager: Rooivalk

A chemical engineer with a postgraduate qualification in business management, Wim has more than 25 years' experience in the commercial and military aviation industry across a variety of areas including: development, design, integrated logistic support management, programme management, business development and operations. He presently manages Denel Aviation's Rooivalk division and is responsible for its technical, contractual, commercial and strategic aspects.



Thanesvari Govender (Denise) Commercial Manager/Company Secretary

Denise holds both BA and LLB (UND) degrees, and is an admitted attorney and conveyancer. Yielding from the prominent law firm of Fairbridges Inc., where she served as a Director, Denise joined Denel Aviation in March 2008 as the Commercial Manager and Company Secretary. Denise is responsible for Denel Aviation's legal, risk, compliance and governance functions.

BUSINESS UNITS

ROTARY WING MRO

A well-established product support business unit, performing maintenance, modifications, upgrade and conversions on military and civilian rotary wing aircraft. We specialise in the following military aircraft:

Oryx
Rooivalk
Puma (SA330)
Alouette (SE3160)
Squirrel (AS350)



COMPONENT MRO

Denel Aviation's Component MRO offers depot level maintenance, repair and overhaul of avionics, electrical, oxygen and components. This facility also repairs and calibrates ground support and test equipment (GS and TE).

ENGINEERING AND FLIGHT TEST

Design Authority (Oryx), MRO engineering support, avionic HW/SW upgrades, mission planning and debriefing, specialist aerospace services, flight testing, information management, qualification.



ROOIVALK

Denel Aviation is the original equipment manufacturer (OEM) for the Rooivalk. This well-known aircraft makes frequent appearances at international airshows and is manufactured for the South African Air Force (SAAF).

FIXED WING MRO

An established aircraft technical support facility with a sound, well-positioned infrastructure, offering a wide range of maintenance, repair and overhaul services for both military and civilian aircraft.

We specialise in the following fixed wing aircraft:

C-130
L100
Cheetah
Hawk



AVIATION MANPOWER GROUP

The company's focus is on sourcing and securing skills, that assist our customers in the execution of their business objectives.

Services: labour brokering; Recruitment, Selection, Remuneration Management, Training, Administration, Labour interaction. Skills Focus: Aviation Technical Skills, Engineering, IT, Supply Chain.



OPERATIONS REVIEW

HIGHLIGHTS

During the year under review, Denel Aviation was awarded an important contract with the SAAF for the avionics and navigation system upgrade of the Oryx. The SAAF increased the current year's Oryx product support and service contract. Training was successfully completed for personnel on the Eurocopter AS350 (Squirrel) helicopter, leading to a technical audit of the Denel Aviation facility to perform maintenance on the product.

Denel Aviation, as part of the SADRI, has formulated a long-term support vision together with the SAAF. This vision was approved by the SAAF Command Council.

ACHIEVEMENTS FOR THE YEAR

Achievements for the year under review include:

- Completion of the Hawk final assembly and delivery of aircraft to the SAAF.
- Accreditation of the facility as a Eurocopter maintenance, repair and overhaul centre for the Puma and Alouette helicopters, as well as for the dynamic components on the Oryx.
- Successful negotiations to increase the funding for non-systemic items on a mechanical upgrade contract on the Oryx aircraft with Armscor/SAAF.

PARTNERSHIPS AND CLIENTS

The Eurocopter and Lockheed Martin partnerships were strengthened through technical aid agreements and an improved relationship. Engagement has been initiated with AgustaWestland, SAAB, BAE Systems and Airbus in anticipation of providing support for the new platforms.

CUSTOMER SERVICE

Engagement with the customer at the most senior levels (SAAF Command Council and Chief of the Airforce) continues to be a priority. The completion of C-130 aircraft 408 within budget and on schedule, strengthens Denel Aviation's case for consolidation with the benefit of improved availability. The new vision of the SAAF aims to deliver a more effective and efficient service across all products.

TECHNOLOGICAL IMPROVEMENTS

Denel Aviation will invest in technological improvements as the SAAF and other major customers introduce new generation platforms. This shift will necessitate skills and infrastructure development for the company going forward.

OUTLOOK FOR THE BUSINESS

Notwithstanding the fact that significant business streams (Cheetah, B-707, Hawk and EBB) have come to an end, Denel Aviation's business outlook is positive. The strengthening of our relationships with Eurocopter and Lockheed Martin is already bearing fruit. Marketing initiatives are also starting to show positive results with prospective clients contacting Denel Aviation with requests. We foresee that the aircraft upgrade and overhaul market will continue to grow, given the high cost of procuring new aircraft.

FINANCIAL REVIEW

During 2007/08, we exceeded both our sales and gross profit targets thanks to the work done for the Kenyan Air Force that was not budgeted for.

The company also performed better on its key financial indicators: return on assets and equity, gross and net profit margins and cash flow projections, while working capital management remains a challenge. Tighter controls on debtors' collection periods and inventory management are to be implemented in the new financial year. During the year under review, we also achieved satisfactory order book cover results with confirmed orders at 40% and low risk orders of 40% at an advanced stage of finalisation. Confirmed orders for subsequent years are at 20% of the budget. (This excludes Rooivalk programme sales as Rooivalk is regarded as a ring-fenced entity.) We are currently in negotiations with the SAAF to conclude a long-term umbrella contract for technical and product support to better enable skills and infrastructure planning. We will ensure that margins are sufficient to make the contract commercially viable. Denel Aviation is the principal supplier of essential product support to the SAAF, with a strategic focus on strengthening the relationship with the primary customer. Our accreditation with multiple OEM's places us in a unique position to pursue business in various markets. As a state-owned entity, leveraging the success of the support offered to the SAAF, Denel Aviation could tap into markets in the SADC region.

HUMAN RESOURCES

The human resource department within Denel Aviation played an important strategic role by actively driving the change process within the organisation. This was achieved by designing and driving initiatives to create a high performance culture to obtain cultural transformation and a commercial mindset.

Denel Aviation's human resource function concentrated on the following specific outputs for the reporting period:

- People planning
- Implementation of a performance management system;
- Transformation;
- Employment equity;
- Developing and involving our people;
- Giving back to our communities; and
- Leading and supporting change.

ACHIEVEMENTS

The following human resources achievements occurred during the reporting period:

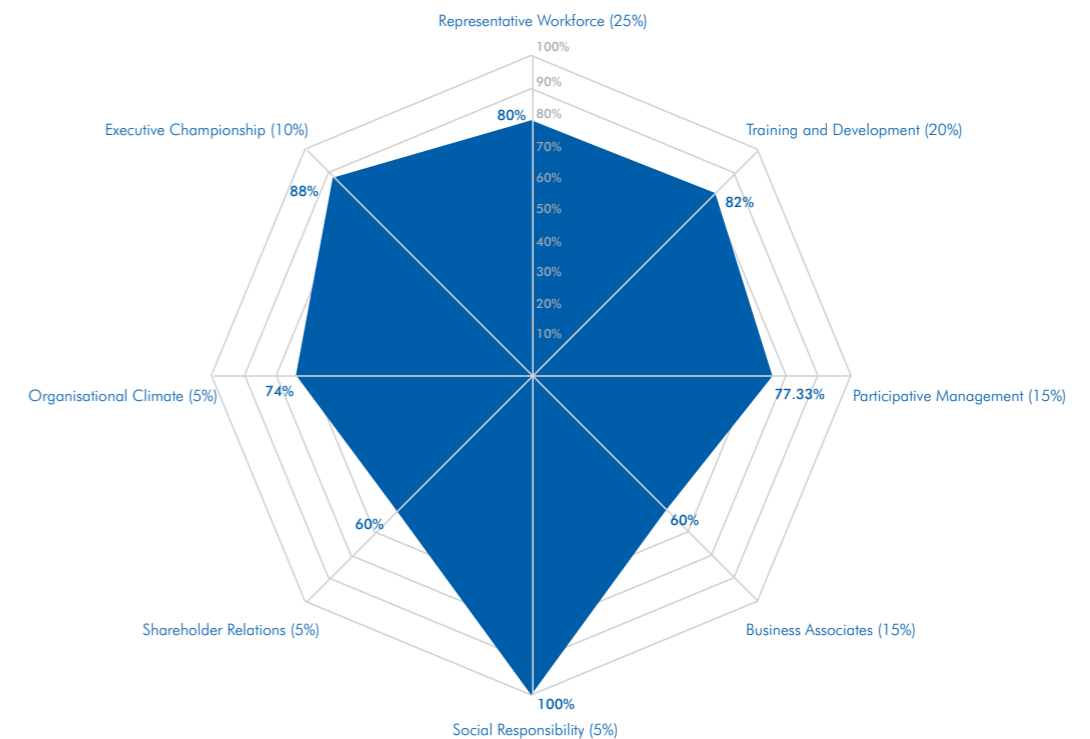
- 98% of training achieved towards our workplace skills plan;
- Solid relationships maintained with organised labour despite dismissals based on operational requirements;
- An effective relationship with the Metal Engineering Industrial Bargaining Council (MEIBC);
- The successful implementation of a performance management system;
- Achievement of the highest divisional score for transformation;
- A significant grant was awarded from TETA (Transport Education Training Authority) for the training of apprentices.

TRANSFORMATION

Denel Aviation's leadership team is committed to transformation and as such, has implemented the eight elements of transformation, as indicated below:

1. Representative workforce: To have a workforce that is representative of the demographics of South Africa.
2. Training and Development: To support the development of skilled employees for Denel Aviation and accelerate transformation in the aerospace industry.
3. Participative Management: To develop and maintain a culture of employee participation and inclusiveness in the definition and determination of Denel Aviation's future.
4. Business Associates: To establish and develop designated SMME suppliers, Black Business partners and to achieve accreditation on compliance with BBBEE.
5. Social Responsibility: To contribute towards the upliftment of technical skills in disadvantaged communities and to create a future technical school for the Aerospace industry.
6. Shareholder Relations: To embrace and live the expectations of our shareholder.
7. Organisational Climate: To manage and be guided by Denel Aviation's values in establishing and maintaining a climate conducive to constructive transformation.
8. Executive Championship: To ensure that all efforts are directed towards the implementation of transformation and that there is alignment with the overall macro strategy of Denel Corporate.

Graph: Transformation Audit Results



Denel Aviation received an external audit score of 77.5%, the highest score achieved within Denel.

DEVELOPING OUR PEOPLE

98% of Denel Aviation's training towards our workplace skills plan has been completed. Of this training spend 52% was directed towards the training of employment equity designated groups. Personal developmental plans have been completed for all employees, which will be utilised for the development of future workplace skills plans. A total of 18 second-year apprentices were enrolled in February 2008. External bursars are currently being sponsored within the engineering discipline. An "Engineer in Training Programme" was launched at various tertiary educational institutions to attract young talent. This programme includes vacation work for engineering students, which is currently underway. An in-depth leadership development programme has also been implemented in conjunction with the Gordon Institute of Business Science.

EMPLOYEE RELATIONS

To ensure excellent employee relations, the following consultation forums have been established with organised labour and all relevant stakeholders, which include, but are not limited to:

- Transformation;
- Restructuring;
- Training;
- Employment equity; and an
- External labour forum.

The employee wellness programme has been launched and is implemented by ICAS, which gives all employees and their immediate family members access to telephonic and face-to-face counselling on various issues such as:

- Financial Advice;
- Legal Advice;
- Relationship and Family counselling;
- Health related issues (including HIV/AIDS);
- Substance abuse;
- Stress management; and
- Management consulting.

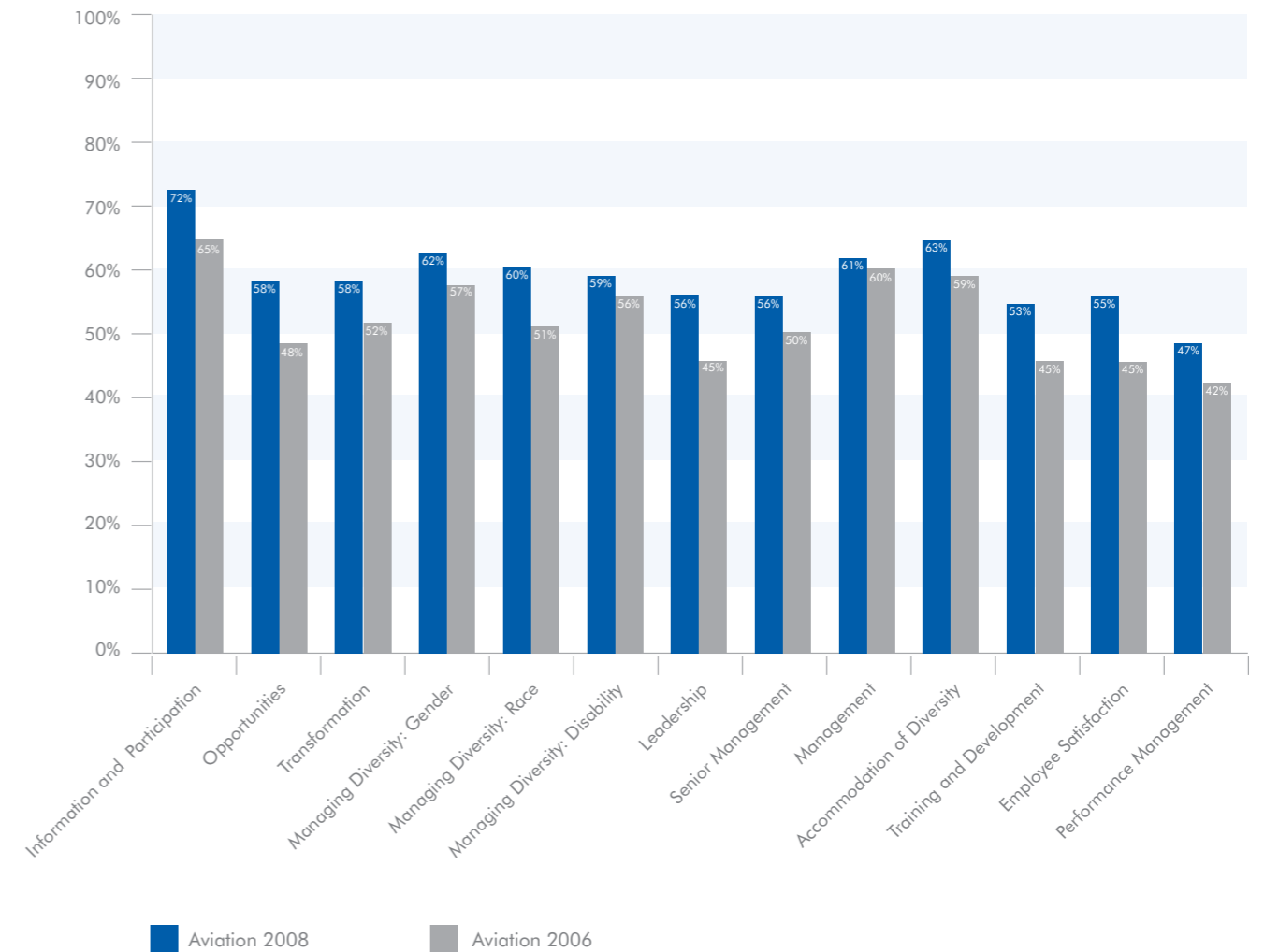
REMUNERATION AND BENEFITS

A market related salary adjustment exercise was concluded for employees, as a first phase of addressing remuneration and benefits within the organisation. A performance management system has successfully been implemented to reward excellent performance. All employees who achieved their performance targets were awarded their variable pay-outs during July.

CLIMATE SURVEY RESULTS

The various Denel divisions have undergone a climate survey, the second after a two year period. The results of the organisational climate survey provide a measure of each entity's organisational culture.

Organisational climate - Aviation, Rooivalk and DPS AMG. Combined 2008 compared to 2006



Denel Aviation achieved a score of 57%, which is a 5% improvement over the two year period.



SUPPLY CHAIN

SOURCING OPTIMISATION

Denel Aviation's supply chain sourcing function consists of procurement, supplier management, shipping and arms control functions. The first stage of the optimisation has been realised by combining the procurement functions into a central group that will still provide dedicated services and function in mutual support of each other.

Currently, the group is focusing on process streamlining, implementation of frame agreements to simplify the procurement functions, implementing a supplier management function and a centralised shipping department.

The aim for this year is two-fold: to reduce the operational lead time and leverage the consolidated spend of the business to help reduce the operational cost.

LOGISTICS OPTIMISATION

Denel Aviation has also centralised the stores functions into a single warehouse offering a full spectrum of services to the business units. The warehouse processes and physical layout are currently being validated and optimised to help reduce lead times and operating costs.

The logistics function also caters for a small national distribution fleet to various air force bases around the country.

PREFERENTIAL PROCUREMENT

During the year under review we have made good advances in the field of BBBEE, procurement improvements and arms control.

The Procurement segment of BBBEE has been driven to approach our set targets of 50% procurement volume. Currently we average between 45% and 52%.

Our targets for the coming year will be to adjust our procurement activities and suppliers to improve our contribution to small and medium enterprises and achieve the required 10% level. Currently we have checked for compliance for 90% of our local spend.



CORPORATE SOCIAL DEVELOPMENT

SCIENCE AND TECHNOLOGY TAKE OFF

Denel Aviation is grooming a generation of engineers and scientists through its social responsibility programmes. The aircraft maintenance, repair and overhaul company helps bring science to life by sponsoring innovative educational programmes and exhibitions.

Each year learners are selected to take part in the Denel Aviation Super Flyer Programme. This programme aims to stimulate careers in aviation, as well as an interest in mathematics and science. Students are offered guided tours of Denel Aviation's facilities, take flips in helicopters and are invited to participate in science exhibitions. Denel Aviation also provides students with science and maths kits and bursaries to pursue their studies.

The Eskom Expo for Young Scientists in partnership with Denel Aviation is an exciting showcase of experiments and school science projects. It serves as a forum for students to demonstrate their inventions and innovations in the fields of science and technology. Regional winners can compete to represent SA at various international science fairs around the world. Denel Aviation recently became a national finals special award member of the Eskom Expo for Young Scientists Competition. Denel Aviation's contribution to this award has ensured that the country's future scientists benefit from a new Denel Aviation engineering prize, which saw three learners awarded their own laptops in October 2008. SciFest Africa attracts more than 45 000 visitors, and features over 600 events, such as lectures, interactive exhibits, workshops, educational theatre, field trips and a film festival.

Denel Aviation takes part annually at SciFest Africa hosting an exhibition stand, complemented by aviation history talks, aircraft design workshops and paper plane competitions. The Denel Aviation stand – with aviation videos and model aircraft displays – attracts thousands of learners. Denel Aviation also exhibits at Science Unlimited and at The Sci-Bono Discovery Centre, an exciting new edutainment attraction in Gauteng, where visitors can learn about maths, science and technology.

Supporters of the Take a Girl Child to Work programme, Denel Aviation also helps inspire young girls to pursue careers in aviation and engineering. Girls get to experience the excitement of Denel Aviation's operations through aircraft design competitions and a firsthand look at Denel Aviation's facilities and workshops. Ismail Dockrat, CEO of Denel Aviation, explains that elevating the company's commitment to promoting science and technology in the country is a major priority. 'At Denel Aviation we realise that it is critical to instil a fascination and curiosity in our children – challenging them to think on their feet; to find innovative solutions to problems. Only in this way will we encourage and develop the skills of the next generation of engineers and scientists,' he says. 'It is in this spirit that we extend our support to the youth – recognising that our children's performance tomorrow is directly linked to our investment in them today.'



HEALTH AND SAFETY

PERFORMANCE

A total of six disabling injuries occurred during 2007, all of them resulting from unsafe acts by employees and unrelated to workplace conditions. Safety on the shop floor was enhanced by the introduction of safety videos. The videos, which address issues of possible risks and deviation from set standards, are published on the Intranet for all employees to view. On-site contractors are included in the SHE programme by ensuring that they receive proper induction training before starting work. They are also monitored continuously during their period of work on site. No contractor incidents were recorded during the period. There were also no vehicle accidents reported during 2007/8.

The Disabling Injury Frequency Rate for 2007 was 0.94, an improvement on the target of 1.0.

COMMUNICATION

The SHE plan is communicated annually through the SHE committee meetings after the SHE management review has taken place. SHE initiatives and general information take place on a continual basis through both the SHE committees and specific work sessions throughout the year.

BENCHMARKING

Denel Aviation had not planned for certification (OHAS 18001, ISO 14001) during the review period. The SHE department does however ensure that items addressing certification requirements are implemented, thus making the formal certification process easier to execute.

PLANT SAFETY

The safety system has been documented and internal audits are conducted in all departments annually to measure performance against the standards. The documented system does not address some of the environmental management issues. The critical environmental legislative compliance is however considered a priority and is being addressed progressively. Baseline SHE risk assessments have not yet been conducted. This critical element is core to the SHE strategy for 2008/9.

OCCUPATIONAL HYGIENE

Hygiene surveys have been conducted on all departments with the exception of D2, which will be covered in 2008. Corrective actions were implemented where deviations were noted; however, some actions required were unable to be implemented and will receive priority in the new year. The surveys are mandatory and are carried out every two years.

FIRE RISK MANAGEMENT AND EMERGENCY PLANNING

Drills are conducted bi-annually in each department in conjunction with Astro Park Fire Department. In-house fire surveys are carried out by the Fire Services and SHE department. Emergency procedures are being revised to meet the local emergency services by-laws.

ENVIRONMENT

Waste management procedures have been documented and implemented in lieu of the "cradle-to-grave" principle as required by local legislation. Pollution prevention is the guiding principle on waste management through the encouragement of cleaner production (minimising amount of waste generated from source) and encouraging recycling of recyclable materials.

Resources such as Diesel, petrol, electricity consumption etc are monitored monthly to seek opportunities to minimise the use of, or further depletion of natural resources.

The company has implemented procedures that specifically refer to the control and disposal of hazardous waste as well as all other waste regulatory requirements.

Denel Aviation has established an energy saving task team. This team's primary aim is to identify and initiate the means to reduce the company power consumption. The results of these initiatives have ensured that Denel Aviation has realised the targets set by the Bonareo Park Campus forum for all tenants (forum started by Denel Aviation).

Our marketing department ensures that printing of marketing collateral is done only on triple green paper (60% sugar cane). We are also embarking on an exercise to only use 50% green paper in all our photocopying machines across our company.

In celebrating the successes of the past twelve months, we remain committed to using what we've learnt to bring us that much closer to making our corporate vision a reality. In this way we will create a company built on innovation, quality and value-adding services that continues to inspire its employees and clients, and acts as a leader in its industry.



DENEL AVIATION (PTY) LTD

Atlas Park, Atlas Road, Bonaero Park. P.O.Box 7246, Bonaero Park 1662, Republic of South Africa.

T: +27(0) -11 927 3535, F: +27(0) -11 927 5280

www.denelaviation.co.za